

WASHINGTON TIMES

28 November 1986

Regan denies giving secret funds approval

By Mary Belcher
THE WASHINGTON TIMES

SANTA BARBARA, Calif. — White House Chief of Staff Donald Regan yesterday denied reports that he had approved a secret U.S. plan to divert profits from Iranian arms shipments to Nicaragua's anti-Marxist rebels.

United Press International quoted an unnamed White House source as saying: "Regan approved the concept of using Iran funds to finance the Contras."

UPI also said Mr. Regan was informed regularly about the operation by Vice Adm. John Poindexter, the national security adviser who resigned Tuesday, and Lt. Col. Oliver North, the NSC official who was dismissed for organizing the scheme.

Mr. Regan called the report "ridiculous."

"I was not briefed throughout on all of this," he said, emerging from a Thanksgiving dinner at which he was host for White House staff members.

"I never heard of it before the news came out on Monday about what was happening with the Iran money and the Contras," the chief of staff said.

Mr. Regan said he had "no idea" where the UPI report originated. "How can you comment on an unnamed source?" he asked.

Justice Department investigators on Monday uncovered the diversion of \$10 million to \$30 million in profits from the secret arms shipments to Swiss bank accounts controlled by Nicaraguan resistance forces.

Attorney General Edwin Meese III said Tuesday that Col. North, former deputy director of the NSC, was the only U.S. official who had "precise" knowledge of the Nicaraguan connection.

Mr. Meese said Adm. Poindexter and former National Security Adviser Robert McFarlane had general knowledge of the diversion of funds.

As the intrigue deepened over who in his administration knew what about the arms deals, President Rea-

gan spent a secluded Thanksgiving with his family at his nearby mountaintop ranch.

When Mr. Regan was asked earlier yesterday whether the rising tide of allegations was getting out of control, he said, "No, no, no. We want to have out in the open anything of a wrongdoing."

"Remember, the first we heard of this was Monday afternoon... when the president first got the information that there had been wrongdoing."

"By Tuesday morning, he had made his statements," Mr. Regan said. "Whenever there is something wrong we want it to come out."

Meanwhile, a pared-down White House staff here had little to say about a Los Angeles Times report that Col. North destroyed documents that might have revealed the scope of administration involvement, which is under investigation.

The Los Angeles Times said Col. North, who was interviewed by Justice Department officials over the weekend, destroyed documents that might have implicated others in the operation.

The newspaper reported that Col. North destroyed the papers at least 36 hours before the locks on his

White House office were changed and the premises were secured earlier this week.

Col. North, in a brief interview before joining his family for Thanksgiving dinner in Washington, said: "I have no statement to make at this time."

"At the appropriate time and in the appropriate forum I will make a full exposition of the facts as known to me," he said. "The time and place of that exposition will be determined with the advice of counsel."

A senior Justice Department official in Washington yesterday told The Washington Times that department investigators on Saturday gave the NSC a list of documents belonging to Col. North they wanted sequestered.

The senior official, responding to

the Los Angeles Times report, said the investigators reviewed documents on Monday and Tuesday and that they appeared complete.

He did not confirm or deny the report that Col. North had destroyed documents.

Another source close to the White House said Col. North had gone to his office over the weekend to clean up, not to destroy documents.

The Justice Department and the FBI are investigating whether Col. North or others broke the law in carrying out the Iranian arms sales and by diverting funds to Nicaraguan rebels.

Mr. Regan said he had "no idea of any wrongdoing or any right-doing" on Col. North's part, "and that's why we have the investigation."

Earlier yesterday, Col. North was turned away at the White House gate. His name has been put on a "do-not-admit" list because he is under investigation.

"He no longer has a White House pass, and he cannot be admitted to the compound for any reason," said White House spokesman Dan Howard.

A major question is whether Col. North — who was deeply involved in efforts to secure private funding for the Nicaraguan resistance — instigated the diversion of arms shipment funds to Swiss bank accounts controlled by the Contra rebels.

Mr. Howard would not comment on any of the escalating swirl of allegations and reports.

"The whole matter is in the hands of the professional investigators," Mr. Howard said.

UPI, quoting two unnamed White House officials, also reported that President Reagan has been briefed regularly on actions taken by Col. North to funnel private military aid to the Nicaraguan rebels, two White House officials said Thursday.

However, the two officials said they did not know whether the briefings by the White House national security adviser touched on funds channeled from Iranian arms sales to the rebels.

The president, who will return to Washington on Sunday, spent yesterday morning clearing brush and riding horses.

Meanwhile, the Rev. Lawrence Martin Jenco, who was released last July by pro-Iranian Moslem extremists in Beirut, yesterday expressed hope that the remaining hostages would be freed.

"Perhaps it's going to have to be Christmas or it might be a feast of the Moslems, but I know it's going to be a feast day celebration when they're set free," Father Jenco said before attending a Thanksgiving dinner at Blessed Sacrament Church in Westminster, Calif.

In Marinette, Wis., a lawyer for the family of Eugene Hasenfus said the investigation of the Iranian arms sales and Contra funding may help free Mr. Hasenfus from a Nicaraguan prison.

Attorney Ernest Pleger said the investigation provides an opportunity to call Mr. Hasenfus to testify in the United States because the Iran deal involved funneling money to the Nicaraguan resistance.

"I wouldn't be at all surprised if there were a formal request made that he be present for those hearings," Mr. Pleger said.

There is speculation that money secretly funneled to the Contras from the Iranian arms deals was

used to finance military supply flights such as the one that crashed last month with Mr. Hasenfus aboard. Mr. Hasenfus, the sole survivor of the crash, was captured by Nicaraguan government troops and subsequently sentenced to 30 years in prison.

In a separate development, former CIA Deputy Director Bobby Ray Inman said he would turn down any request by the president to head the NSC. "I have not been contacted by anyone in the administration about serving and I am not available," Mr. Inman said Wednesday, responding to reports that he was being considered as a replacement for Mr. Poindexter.

Mr. Inman, who heads a computer and electronics firm and describes himself as a Reagan supporter, said he was skeptical of the administration's position that Col. North masterminded the complex Iranian arms deal.

• Jeremiah O'Leary and Michael Hedges contributed to this report in Washington.

UNITED PRESS INTERNATIONAL
27 November 1986

FILE ONLY

IRAN ARMS - INMAN
AUSTIN, TX

★ Former CIA deputy director Bobby Ray Inman says he would not accept if President Reagan asked him to head the National Security Council following John Poindexter's resignation.

"I have not been contacted by anyone in the administration about serving and I am not available," Inman said Wednesday, responding to reports he was being considered as the next national security adviser.

Inman, who heads the Microelectronics and Computer Technology Corp. and describes himself as a Reagan supporter, said he was skeptical of the administration's position that the complex Iranian arms deal was masterminded by Lt. Col. Oliver North.

Reagan fired North and accepted Poindexter's resignation after an administration inquiry showed the profits from the sale of U.S. military equipment to Iran were shuttled to Swiss bank accounts controlled by Nicaraguan rebel leaders.

Reagan's role in the secret shipment of arms to Iran has revived the nation's Watergate-era distrust of government, Inman said.

"We're back again to the mold of 'don't trust your government,'" the retired admiral said.

"I have some difficulty believing a lieutenant colonel was acting all on his own but that does not mean the president was aware of all the details," he said.

"It is clear it is very damaging to the president, whatever one's view of him, pro or con," Inman said. "I happen to be pro. I think President Reagan's greatest contribution was restoring confidence in the leadership of the presidency."

But Inman said that confidence has been shattered by the covert arms deal.

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WASHINGTON POST
27 November 1986

Reagan Names Board to Study NSC

By David Hoffman
Washington Post Staff Writer

SANTA BARBARA, Calif., Nov. 26—The Justice Department today expanded its probe of the Iran weapons shipments into a full-scale criminal investigation as Attorney General Edwin Meese III said people with "tangential" ties to the government were involved in the operation.

Justice Department officials said the probe, which began over the weekend with Meese and a handful of his assistants, has been enlarged to include the Federal Bureau of Investigation.

In Washington, a department official told Washington Post staff writer George Lardner Jr. that the investigation will be a wide-ranging inquiry that could include interviews abroad and the presentation of evidence to a federal grand jury. The move transforms what began as a fact-finding exercise for the president into a formal inquiry assigned to the Justice Department's Criminal Division and under Meese's supervision.

Meanwhile, President Reagan announced the appointment of a three-member review board, headed by former senator John G. Tower (R-Tex.) and including former secretary of state Edmund S. Muskie and Brent Scowcroft, who was President Gerald R. Ford's national security adviser, to determine the proper government role of the National Security Council.

The appointments came a day after Reagan accepted the resignation of his national security adviser, Vice Adm. John M. Poindexter, and dismissed Lt. Col. Oliver L. North, a member of the National Security Council staff. Meese said Tuesday that North "knew precisely" about the complex transactions that saw money from the Iranian arms sales go to help the Nicaraguan contras and that Poindexter had some knowledge of the diversion of funds and did not stop it.

In an appearance on ABC's "Good Morning America" today, Meese said, "It appears that there were some others involved and that's what we're looking into now There are some consultants involved and other people who have a tangential relationship to the United States government that we'll be talking to."

In another development, a State Department spokesman dismissed reports that Secretary of State George P. Shultz was planning to resign and said that "the secretary has every intention of staying the course with [the president] to the end."

Reagan arrived here for a Thanksgiving vacation as an ABC News poll showed deepening skepticism among the American public of the president's explanations about the Iran operation. The poll showed that Reagan's job approval rating has fallen another four points since his news conference last week. Fifty-three percent of those surveyed said they approved of the way he is handling his job, compared to 67 percent in September.

The nationwide poll, taken after the disclosure of the Nicaraguan link Tuesday, showed that six in 10 of those questioned say they think that Reagan knew about the diversion of money to the Nicaraguan contras before Monday, which is when he said he learned of it.

In addition, 67 percent said they think Reagan knew about it from the start, while 28 percent said he did not know of it from the start.

Asked whether the resignation of Poindexter and the firing of North ended the controversy, eight in 10 of those questioned said it did not. Overall, 67 percent said they disapprove of the way Reagan has handled the Iran arms situation.

Three of every four people questioned said they disapproved of the way the Iran weapons money was diverted to help the contras.

Reagan's public approval rating has not been so low since the controversy over deploying the Marines in Lebanon in September 1983. However, his approval rating is higher than his low of 42 percent in January 1983 when the recession was ending.

The survey showed a strong continuing belief in Reagan, even if he makes mistakes. Sixty-eight percent of those questioned agreed with the statement that Reagan may have made mistakes in this particular instance but that it does not raise major questions about his ability to run the country. Only 26 percent agreed with the statement that Reagan is not in control of his presidency and that the situation raises major questions about his ability to govern.

In a written statement today, Reagan said the newly appointed review board will conduct a "comprehensive study" of the future role and procedures of the National Security Council staff "in the development, coordination, oversight and conduct of foreign and national-security policy."

"In particular," he added, "I have asked the board to review the NSC staff's proper role in operational activities, especially extremely sensitive diplomatic, military and intelligence missions. Specifically, they should look at the manner in which foreign and national-security policies I established have been implemented by the NSC staff."

Reagan created the board in response to sharp criticism in recent weeks that the White House had overstepped its bounds in getting involved in the operational details of the Iran arms shipments, while excluding senior military leaders and diplomats.

Reagan said he wanted the review completed in a "prompt and thorough manner." White House deputy press secretary for foreign policy Dan Howard said Reagan would meet with the members Monday to discuss the effort.

"The bottom line is that they will have carte blanche to talk to anyone and see anything they need to look at," he told reporters as Reagan flew to his California ranch for the holiday.

White House officials said a replacement for Poindexter has not been selected. "We're collecting names," chief of staff Donald T. Regan told reporters on arrival at Point Mugu Naval Air Station this afternoon.

Sources said one candidate for the NSC post was former CIA deputy director Bobby Inman.

As the president stepped from Air Force One, he was quickly directed away from a "pool" of reporters under the wing and taken in the opposite direction to meet with a group of schoolchildren.

Regan insisted before leaving Washington that he did not have a responsibility to look into the Iran weapons shipments earlier. "I didn't know anything was happening," he said. "You understand that the NSC doesn't report to the chief of staff."

Despite calls for appointment of an independent counsel to take over the probe under the Ethics in Government Act, officials in Washington said Meese intends to remain in charge until the Justice Department has developed "a complete factual record." They said there was not enough evidence yet to think that anyone has committed a federal crime, let alone that one has been committed by an official high-ranking enough to trigger appointment of an independent counsel.

The inquiry will be "basically managed" by Associate Attorney General Stephen S. Trott and Assistant Attorney General William Weld, who heads the Criminal Division.

"It will be complete, thorough and expeditious," one official said. "We would like to produce a product by the end of the year, but we just don't know how long it will take."

The mushrooming inquiry began modestly last Thursday, according to a knowledgeable source, when Meese and Chuck Cooper, the assistant attorney general in charge of the Office of Legal Counsel, were reviewing legal issues involved in testimony to be given by administration officials on the increasingly explosive issue of arms shipments to Iran.

They found "noticeable gaps" in the records kept by different officials. So, about 11:30 a.m. Friday, Meese met with Reagan, Regan and Poindexter and told them they needed a comprehensive overview.

"Everybody agreed that was needed," the source said. Meese was given the chore with the idea that a full report would be ready for the president to present at a scheduled NSC meeting on Monday afternoon. Meese headed back to the Justice Department and assembled a small team, including Cooper, Assistant Attorney General William Bradford Reynolds, Meese staff assistant John Richardson and several others.

They worked through the weekend, reviewing documents and talking to people, including the president, Regan, Shultz, Defense Secretary Caspar W. Weinberger, CIA Director William J. Casey, Poindexter, North and former national security adviser Robert C. McFarlane. Meese spoke with Vice President Bush on Monday.

"These were conversations, not part of a formalistic investigation," the source emphasized.

By Saturday, the review team came across information indicating a connection between funds coming out of Iran and the Nicaraguan contras. That link became increasingly clear as the weekend wore on. As a result, the source said, Meese met with Reagan at 11 a.m. Monday that more information was needed. The topic was taken off the NSC agenda. Meese conferred with Reagan late Monday and early Tuesday.

By that time, the source said, "Poindexter had already let it be known he would be leaving, and the president said it was time to get all of this out."

Bugs tipped off arms deal

J By JOSEPH VOLZ

News Washington Bureau

WASHINGTON—Electronic eavesdropping on Mideast arms dealers is believed to have provided key tipoffs to the secret funding of the contras with profits from Iran arms sales.

Attorney General Edwin Meese said that it was not until he ordered a "thorough review of a number of intercepts and other materials" over the weekend that he learned there was a "high

Dealers were tapped

probability" that contra money-laundering had occurred.

Meese gave no details but it was believed that the Pentagon's top-secret National Security Agency, which has worldwide electronic eavesdropping facilities, was tuned into phone or radio conversations among Mideast arms dealers and overheard talk about Iranian and Israeli transactions that

poured money into secret contra Swiss bank accounts.

What is not known is how long the NSA had this evidence, suggesting possible crimes by U.S. officials, before turning it over to the Justice Department.

In a variety of scandals over the years, from Watergate to Koreagate to contra-gate, both the NSA and the CIA have been reluctant to jeopardize sources and

methods by volunteering key information on U.S. wrongdoing to Justice probers.

But in a departure, Adm. Bobby Inman, former head of NSA and deputy CIA director, played a key role in uncovering a Carter administration scandal involving the Libyan business dealings of the President's brother, Billy.

The Daily News learned that back in 1980, Inman, now retired, bypassed the National Security Council and personally went straight to then-Attorney General Ben Civiletti with NSA-intercept material indicating that Billy Carter had received thousands of dollars in "loans" from Libya.

Withheld source

Inman told Civiletti not to reveal the source but Civiletti failed to tell anyone, including his own aides, thereby withholding a key bit of information from FBI agents until they found out on their own three months later.

Inman was said to believe at the time that the NSC, chaired by President Carter, would block any real probe of Billy. Justice ethics chief, Michael Shaheen, in a classified report, later criticized Civiletti for withholding the information.

Billy was not prosecuted but belatedly registered for a short while as a Libyan foreign agent.

Inman Sees Turf Battles Ruling Procurement Policy

By Nancy Ferris
GCN Staff

Retired Adm. Bobby R. Inman, who steps down at the end of the year as head of the Microelectronics and Computer Technology Corp., recently had harsh words for congressional oversight of ADP.

In his dealings with the House Government Operations Committee, Inman told an audience of more than 150 federal officials and government contractors in Washington, he has found "a very limited understanding" of technology and how it is changing. Further, he said, "there's a fixation that everyone in business is dishonest and out to make a quick buck."

These remarks came in response to an audience question about procurement procedures under the Warner Amendment and the Brooks Act. Inman, who has been based in Texas for several years, said he was not up to date on such issues, but he observed that "turf" considerations, rather than concern about efficiency and effectiveness, seem to dominate the government's procurement policy-making.

In his earlier talk, Inman said there is a trend toward more complexity in acquisition even though "Mr. Brooks may retire one of these years." His reference to Rep. Jack Brooks, the Texas Democrat who chairs the Government Operations Committee, drew some audience applause. Inman also noted with disapproval that the government takes 12 to 13 years to acquire major systems, while the procurement cycle in the private sector is much shorter, he said.

Inman spoke at a symposium on "Strategic Computing in the Federal Government: 1986 and Beyond" sponsored by the Oracle Corp. of Belmont, Calif. While most of his talk was devoted to current and future ADP issues, he did not hesitate to comment on topics ranging from oil wells to the Gramm-Rudman budget balancing law [see below].

Asked about information security, he criticized the National Security Agency, although he referred to it only as an organization of former colleagues. Inman was NSA director and also deputy director of the CIA. NSA wants to achieve a level of security such that it would take an enemy 40 years to break it, he said, but such protection is not cost-effective. The real need is to protect information for a few days or at most a few months, he said, pointing out that much sensitive information quickly loses its value.

In an apparent reference to NSA's plan to replace the Data Encryption Standard for protecting sensitive but non-classified information, he said that "I don't think we

need to change the standards" to the point where no organized government efforts could ever break the code.

Instead, he said, security should rest on continually generating new, random keys for each use. Such an approach allows for an occasional security breach but limits the amount of information lost in any given breach, he said.

"You have to think about personnel security as the single greatest point of vulnerability," Inman said. Saying that most of those who have provided U.S. secrets to other nations have been motivated by money, he observed that examination of employees' personal finances raises ethical and privacy questions.

Computer Matching

He said that when he headed it, the CIA was allowed no access to Internal Revenue Service data on individuals with national security responsibilities. Inman recommended that security agencies supply the IRS with lists of persons holding security clearances. The IRS would then match the list with its files to see whether the net worth of anyone on the list grew substantially during a year. For those with such increases in wealth, Inman said, the IRS could then quickly review the returns to see whether the source of the money was satisfactorily explained. A list of those without sound explanations would be returned to the security agencies.

"I don't consider that [kind of arrangement] intrusive into the privacy Americans deserve," Inman said.

Overall, his theme was the need for more computing power to support decision-making in government and more government support of research and development efforts. "Computing capacity is at the very heart of the success to be gained" from R&D, he maintained.

"I'm convinced from sitting on the sidelines that we're heading in the wrong direction" when the government cuts back on data collection and on information systems, he said, arguing that knowledge is the key ingredient in better government. While the pace of change is increasing, government is falling behind, he said.

As an example, he said the Federal Reserve System is not meeting the challenge of eliminating the "float" — the delay in processing monetary transactions. As a consequence, some people are able to manipulate the monetary system, and the Fed's systems do not support tracking these manipulations. Improvement in the Fed's systems "could impact on the productivity of our entire financial system," he said.

Inadequate information on foreign trade

and on job losses and retraining needs also have hampered the effectiveness of national policies, he suggested later in his remarks.

After outlining the technical advances he expects in fields such as energy, telecommunications and biotechnology, Inman said the federal government's role is to invest in R&D (which it does through agencies such as the National Institutes of Health and the Department of Energy) and to take the lead in applying new technologies to basic industries. In the latter role, he said, the government is not succeeding.

Inman's interest in technology applications reportedly influenced his decision to become chairman and chief executive officer of Westmark Systems Inc. in January. Westmark, a new Texas firm, has been described as a venture capital company or holding company for high-technology firms, especially in the defense field.

With respect to national security issues, Inman said the nation's defense requires faster, more sophisticated processing of information and faster responses to threats once they are detected.

"The odds are growing that we will enter into additional agreements" to limit actual tests of weapons systems, he added, and therefore simulation of weapons performance will increase in importance. Cryptography will remain "a very critical element of this country's national security as far out as I can see," he said.

Advanced Computing

As for artificial intelligence, Inman said, "there's still more hype, in my view, more brochure salesmanship in what's going on than reality." He said expert systems hold some promise, but, "I remain a healthy skeptic about the gains to be made in natural-language processing."

Parallel processing is likely to yield great improvements in price-performance, Inman said, and distributed simultaneous processing will be necessary for the Strategic Defense Initiative and other defense systems.

Software, however, is "the great missing ingredient," he said, although advances have been made in such areas as programmer productivity tools and automatic code generators.

Noting that the numbers of U.S. students in graduate science and research programs have been declining since 1968, he called for changes in immigration laws to permit more U.S.-educated foreign students to remain in this country.

Inman Speaks on Issues



Adm. Bobby R. Inman (Ret.)

Retired Adm. Bobby R. Inman had something to say about many current issues when he spoke recently at a Washington symposium:

■ On the barriers to change in federal agencies: "The problems begin essentially with the one-year budget cycle." Federal executives must spend too much of their time developing, defending and implementing budgets. More long-range planning is needed.

■ On the future of special-purpose computers and embedded systems: "I believe it will be commercially viable 10 years out" to produce many kinds of special-purpose and dedicated machines. Their use will grow.

■ On the Gramm-Rudman deficit reduction law: It probably signals the beginning of a cycle of decreasing government employment. The fact that virtually no programs, including defense, are exempted is significant.

■ On the strategic importance of the Customs Service: "That agency was one of the most antiquated in government just five years ago." Its progress enables it to carry out very important missions in combating terrorism, bolstering the nation's competitive position and controlling international transfers of technology.

■ On spies: Blackmail used to be one of the most common reasons for Ameri-

cans to turn traitor, but today "life styles have changed so that it's pretty hard to think of something you can blackmail someone for."

■ On technology in space: Direct broadcasts from orbiting satellites no longer seem likely in the foreseeable future, and commercial manufacturing in space will not be undertaken until after the turn of the century.

■ On progress in materials: Alloys will increasingly replace conventional steel and aluminum, and stealth technology will be applied in construction. One outcome will be easier human habitation in space, the oceans, arctic regions and deserts.

■ On energy issues: The United States' lead in nuclear energy has been lost to the Europeans and Japanese, but this country still holds the lead in fuel cell technology. Energy companies will work to wring more from their existing fossil-fuel deposits; they currently recover only 25 percent of the contents of wells and mines.

■ On the Soviets and the arms race: Inman was "surprised" at the recent discussions at the Iceland summit of discarding all ballistic missiles, because such an agreement would leave us with limited means of defending ourselves against cruise missiles. Arms control is high on the U.S. agenda, but Inman doubts that the Soviets consider it as important. Soviet leader Gorbachev is more concerned about his nation's relations with Europe and Asia than with the United States.

■ On the prospects for effective voice interfaces for systems: "I am a skeptic on where we are going to go with voice." There has been little progress in getting machines to recognize the speech of more than one individual, he said.

■ On the conflict between personal privacy and national security: "I just don't buy the 1984 scenario at all." More information is the foundation for better decision-making; how the data is used should be watched carefully.

— Nancy Ferris

UNITED PRESS INTERNATIONAL
21 November 1986

STATINTL

INMAN URGES COMMERCIALIZATION OF TECHNOLOGY
ST. LOUIS

Retired Adm. Bobby R. Inman said the United States must speed up the rate at which technological breakthroughs are brought to market if it wants to remain No. 1 in a rapidly changing world economy.

"The U.S. still creates technology at a significantly faster rate. Where we are losing is in the speed in commercializing it," said Inman, who was in St. Louis Thursday to address Midwestern scientists, engineers and managers at a computer and telecommunications workshop hosted by Washington University.

"It isn't just cheap labor. It's culture," Inman said. "In the United States, you test-market a product for a year, then go to the bank for financing. In Japan, the banker is directly involved from the start."

Inman, 55, said he hopes to "create models" to speed up the commercialization process when he takes over Jan. 2 as chief executive officer of Westmark Inc. Westmark, based in Austin, Texas, is a privately held holding company created to buy up defense electronics companies, he said.

Inman, a former director of the National Security Agency and deputy director of the Central Intelligence Agency, holds an equity stake in Westmark.

Inman is resigning at year's end as chief executive officer, president and chairman of Microelectronics & Computer Technology Corp., also based in Austin. He helped found the consortium, in which 21 U.S. companies have pooled research and development resources, in 1983.

MCC's current budget is about \$65 million, Inman said. He said, however, the companies have focused on short-term projects which can yield near-term profits. Inman said long-term research is needed, and he said he will recommend that be the focus of the consortium's work through 1991.

"On the issue of technology creation, we're on the upswing again," Inman said. He said federal funding wasn't as plentiful as it should be, but university-industry partnerships are taking up the slack.

Government regulation and methods of capital formation that "are not able to deal with today's rapidly changing world economy" are slowing down the process, Inman said.

"We are seeing a continued, steady erosion of our manufacturing base and we can't maintain our standard of living on a service economy," Inman said. "Yet there is no clear sense of urgency to deal with the problem."

He said capital and talent have been pooled at MCC "to tackle long-term, tough research problems that the companies would not have done on their own."

"Four years later, MCC is a great success from the point-of-view of attracting talent. But the real challenge is to know what's coming and take the new technology to the marketplace."

Much of that success, he said, has been in the development of technology related to high-speed integrated circuits for computers and a data base for storing artificial intelligence data.

UNITED PRESS INTERNATIONAL
20 November 1986

Inman criticizes arms sale to Iran

ST. LOUIS

A Retired Adm. Bobby R. Inman said Thursday that President Ronald Reagan made a mistake in selling arms to Iran to secure the release of U.S. hostages held in Lebanon.

"I'm not a fan of covert action," said Inman, who was director of the National Security Agency for four years and deputy director of the Central Intelligence Agency from 1981 to mid-1982.

"But an administration turns to it out of frustration. Diplomacy doesn't work. Force isn't an option. So you try covert action.

"The downside is that though it may be faster, you lose the checks and balances."

Inman said a president feels "he must do something" with "the glare of the media" on him.

Inman said Reagan's move "backfired," although he said he thought the president's intentions were good.

"The President's a compassionate man and that compassionate side of him got him into trouble. It caused very substantial damage to him and to the future of the administration."

Asked if he thought Reagan made a mistake, Inman said, "Yes, I do."

Inman was in St. Louis to address Midwestern scientists, engineers and managers at a computer and telecommunications workshop hosted by Washington University.

Inman, 55, will take over Jan. 2 as chief executive officer at Westmark Inc., based in Austin, Texas. Westmark is a privately held holding company that will seek to buy up defense electronics firms.

At year's end, he is resigning as chief executive officer, president and chairman of Microelectronics & Computer Technology Corp., also of Austin. MCC is a consortium of 21 companies which pooled research and development efforts in 1983 under Inman's direction.

PROFILE

WHAT'S SO GREAT ABOUT ADMIRAL BOBBY INMAN?

He has never earned a nickel of profit. But savvy financiers, impressed by his ideas on restoring America's edge, are behind him in a bold new business venture. ■ by *Brian O'Reilly*

ADMIRAL Bobby Ray Inman is on a mission to save the country, or at least its economic place in the world. Pretty grandiose, you say, if not cockeyed. So why are a dozen of the biggest names in American business, from Dallas real estate tycoon Trammel Crow to former Secretary of Defense Donald Rumsfeld and New York television titans Laurence A. Tisch and Thomas S. Murphy eager to back him with millions as head of an ambitious new enterprise? This 55-year-old retired Navy officer, one backer admits, "has never run a profit-making company." What do they see in him?

Certainly not movie-star good looks. Inman—he hates his given name, Bobby Ray, tolerates Bobby, and doesn't mind Bob, but those who work with him call him Admiral—has a gapped-toothed smile, slightly Oriental eyes, and a pair of eyebrows usually writhing out of control. Nor can he boast of polished grace on a ballroom floor. "I'm so clumsy I can't walk across a room without bumping into the furniture," he laments. He is simply one of the smartest people ever to come out of Washington or anywhere, who dazzles just about everybody he meets. He pulled off a military career practically unmatched in the history of the Navy, without firing a shot.

Thus, when Bob Inman says he has been tapped to head a holding company named Westmark Systems that will acquire defense electronics companies, ears perk up. Nor do those familiar with him laugh when he says Westmark will show American industry how to exploit new technology faster and reinvest lost markets. He has gotten crazy ideas off the ground before.

REPORTER ASSOCIATE Lorraine Carson

No less a venture, in fact, than an unprecedented four-year-old research consortium to develop advanced technology for a radical new supercomputer system that would try to beat anything coming out of Japan's government-backed "fifth generation" effort. Members of the consortium, called Microelectronics and Computer Technology Corp., include such archrivals as Control Data, Honeywell, and NCR—but not IBM or Apple—as well as RCA, Gould, and Allied-Signal. When Inman quit the government he was enlisted to head the venture, setting off a wild competition by 57 cities in 27 states hoping to snare the technology incubator, inexplicably known as MCC. Austin, Texas, won out when the state and several Texans promised \$35 million of help, from real estate to money for new professorships at the state university there.

MCC's endeavors will take perhaps a decade to bear fruit, and it is far too early to pronounce it a success. But powerful folks were sufficiently impressed to want Inman as chief executive of Westmark, which may be just down the street in Austin if Inman has his way. The new company, to which Inman will move in January, is owned by Mason Best, a Dallas investment bank created two years ago by Elvis Mason, former chairman of Dallas's big InterFirst Bank, and Randy Best, a Texas entrepreneur. With an infusion of \$100 million from wealthy investors, Mason Best quickly bought food producers, a publishing company, and three greeting card companies. "They've done extremely well," says investor Robert Dedman, a Dallas centimillionaire and a Mason Best investor.

Now Mason Best has decided to set up Westmark as a vehicle to move into defense

electronics—"one of the few parts of the economy that's growing in real terms," in one backer's words. Mason Best has its eye on "two or three" electronics companies that make subassemblies for large weapon systems. Inman says Westmark's sales could eventually hit \$1 billion a year. "Our ability to raise capital will not be a restraint on growth," says a Mason Best spokesman.

If anything, Inman's ambitions are greater now than when he launched MCC. Friends say he's frustrated and worried about how slowly American corporations—including some of the owners of MCC—adopt new technologies and turn them into products. Westmark, he says, will be a model of how that can be done.

Can he pull it off? Hard to tell. His career, however brilliant, is shrouded in secrecy. For most of his 30 years in government Inman starred in military intelligence. From 1977 to 1981, he headed the nation's most secret and sophisticated electronics and data analysis organization, the National Security Agency, and then spent 18 months as deputy director of Central Intelligence. He keeps secrets at MCC as well, so that member corporations get first dibs on any discoveries.

One nonsecret about Inman is his extraordinary mind, which propelled him through the intelligence community so fast he became one of the very few ever to make four-star admiral by the age of 49. Inman has demonstrated his wits practically since he was born, the second of four children, in the tiny town of Rhonesboro in east Texas. His father owned a gas station, and the family's

The former spymaster is in the market for defense electronics companies.

means were modest. In grammar school Inman was a whiz kid on a nearby radio quiz show, often bringing home prizes.

He breezed through nearby Mineola High School by age 15, though that had some disadvantages. "I was a little squirt," he says, "5-foot-4 and 96 pounds when I graduated." To keep from being bullied he tutored the athletes he admired, and helped other students run for school offices. "I acquired protectors," he recalls with a grin. At 19, grown to 6 feet, Inman graduated from the University of Texas with a B.A. in history. For a while he taught at a grammar school, hoping to go to Stanford Business School. Then the Korean war broke out.

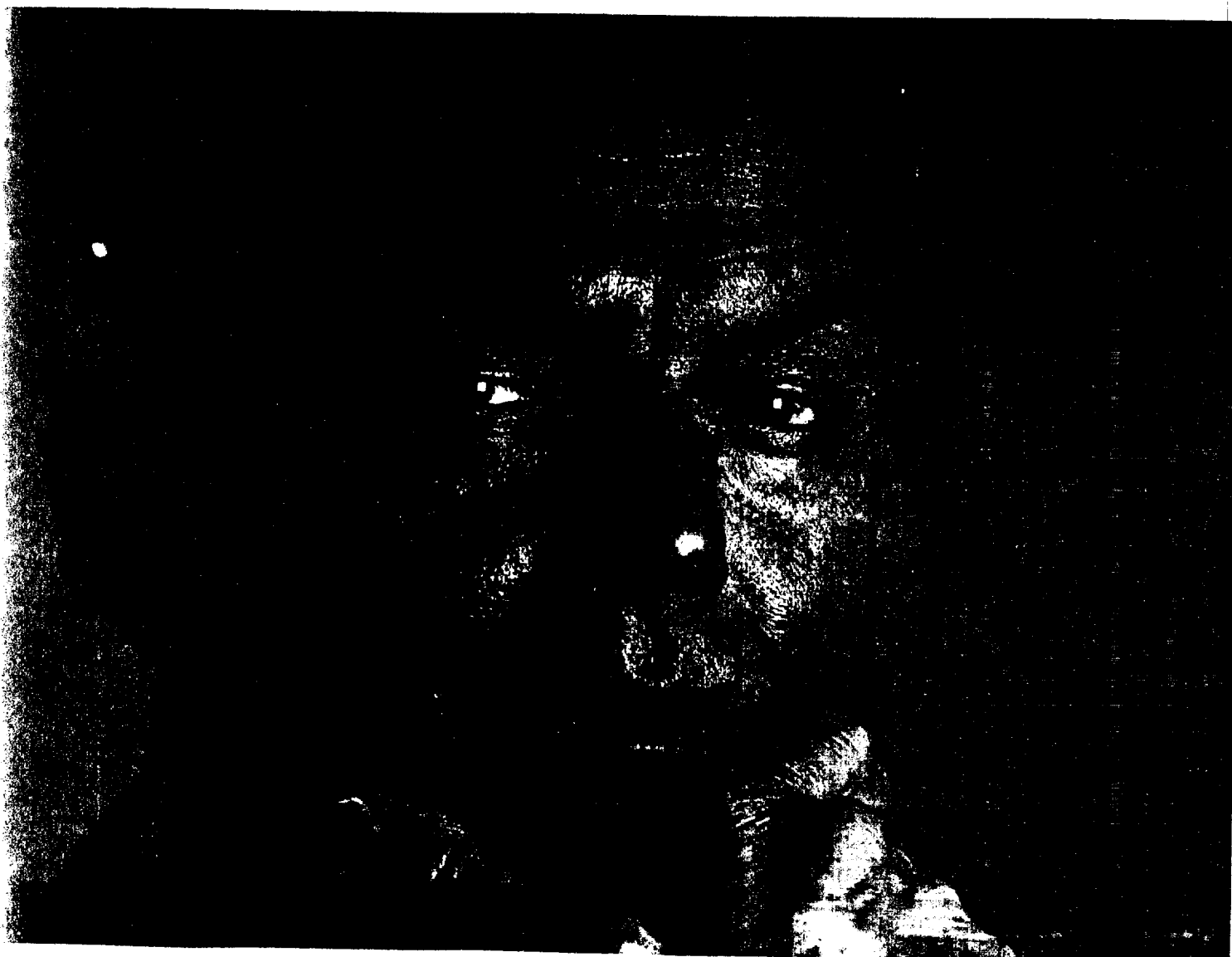
With the draft looming, Inman signed up for the Navy's officer candidate school and soon found himself decoding secret messages on an aircraft carrier. In 1953 he was in

Washington, hoping to be let out of the Navy early. Just then, an American cryptographer in Paris was discovered to have a Communist girlfriend, and Inman was dispatched to replace him. After a stint at the Navy's intelligence school in Washington, he got a chance in 1958 to impress the brass.

THE NAVY WAS worried that mainland China would invade Taiwan, and the Pacific Fleet was heading to the area as a precaution. One night while Inman was on duty, one of the three commanders who regularly briefed Admiral Arleigh Burke, then Chief of Naval Operations, came in, quickly read a stack of intelligence reports, and sped off. Based on the commander's analysis the admiral began dispatching warships, until word came back that the information was wrong. Inman was called be-

fore Burke. Blessed with a nearly photographic memory, he was able to recall each of the hundreds of dispatches he'd read that night and answer questions. He was promptly named to replace the disgraced commander.

In a whirlwind of promotions, Inman ascended up to director of naval intelligence, taking over in 1977 as head of the NSA. There he set out to master Congress's unwieldy budgeting process, which required him to make financial projections five years forward while spending money budgeted five years earlier and appropriated two years before. All this in a top-secret budget of perhaps \$15 billion, hidden away in dozens of other agencies' budgets. "Anybody who says I never ran a profit-making company and don't know how to keep track of money ought to try that for a while," he says.



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Mastering the details, Inman testified at appropriations hearings without notes. Senator Barry Goldwater called him "the most articulate budget explainer I've ever seen." Senators trying to learn what the nation's spies were up to loved him too. "He was called on as the guy who simply gave the facts," says Democratic Senator Joseph Biden of Delaware. "He'd never volunteer information, but he'd never mislead you."

Inman's main chore was presiding over NSA's vast electronic spying and military communications operation, with its 30,000 employees and awesome banks of powerful computers at Fort Meade, Maryland, and around the world. Inman's evenings were often spent at Washington social functions, but he would get up the next morning at 4 A.M. to review briefcases full of NSA material. "Bob Inman has no hobbies," says Eugene Tighe, a retired Air Force general and close friend, "except maybe reading. His office was the duller thing you ever saw. Everyone else might be showing off ship models or something. Bob just had bare walls and books."

In 1981 Inman made four-star admiral and was elevated to deputy director of the CIA. He quit 18 months later amid reports of friction with director William Casey and the Reagan Administration. After a 60-day, 11,000-mile driving tour of the Western U.S. with his wife, Nancy, and his two sons (one now a Navy pilot, the other at Annapolis), he sifted through hundreds of job offers.

He selected an offer from William Norris, the founder of Control Data, a major supplier of computers to the NSA. In early 1982 Norris had assembled leaders of two dozen technology companies at a country club in Florida, where he urged them to join their efforts to leapfrog Japan's fifth-generation program. Many doubted the approach would work, but Inman decided to give it a try. "Computers themselves didn't turn me on," he says, "but pulling a disparate organization together that would impact on the nation's ability to compete did."

The biggest headache, after MCC won unanimous passage of a law that eliminated federal antitrust worries, was finding talent. Inman soon discovered that the 12 corporations that signed up, known as shareholders, weren't sending their best people to Austin for top positions. Just as quickly, he sent people back and started looking elsewhere. "He had incredible contacts in the scientific and academic community," says General Tighe. "As soon as somebody showed up, he was on the phone asking, 'Is this guy any good?'" To date, eight of MCC's 11 vice



Once stars on the Washington social circuit, Bob and Nancy Inman like down-home Austin.

presidents and two-thirds of its 330 scientists have been hired from the outside.

All are working on blue-sky solutions to four major technological challenges: raising the computing power of microchips by increasing the number of wires that can be attached to one from 32 to as many as 1,000; computer-aided design of very powerful microprocessor chips; developing faster, more efficient software; and designing advanced computer architecture. The first project has already achieved a breakthrough: MCC's researchers have boosted the number of microchip connections to 328. The advanced computer project, on the other hand, is expected to take ten years. Like other attempts to advance so-called artificial intelligence, its goals include speeding up computers by dividing problems into several parts and solving them simultaneously. Member companies can choose which projects to support, and get first rights to use the technologies for three years.

NORRIS SAYS MCC'S progress "exceeds expectations," but some participating companies aren't so sure. "Inman did a remarkable job of bringing the organization to this point," says Joseph Boyd, chairman of the Harris Corp. "But right now I don't think you can say in any sense that MCC is a success or failure." By some crude measures, though, it is working. The number of participating companies has risen from 12 to 21, now including Ko-

dak, Boeing, and Westinghouse. Four years ago a seat on the board cost \$150,000, but now newcomers must pay \$250,000. That doesn't count what they contribute to MCC's \$65-million-a-year budget.

Inman gets good marks as a boss, but he is not one of those walk-around managers. "He's not the kind of person who says to himself, 'Gee, I wonder what they're up to over at computer-aided design today. I think I'll take a look,'" says John Hanne, vice president in charge of that program. He is at his best as the competent mediator, ruling on a dispute between shareholders on whether technology should be licensed to nonmembers or how a particular research approach should proceed.

"He has a bit of an imperial style," says Winston Royce, Lockheed Corp.'s top technical officer working at MCC. "He listens to us, but he makes up his own mind. It's rare for anyone to convince him. Most of the convincing comes from himself." Inman doesn't get angry often. But when someone doesn't perform properly, recalls former NSA general counsel Dan Schwartz, who now does legal work for MCC, "he gets icy, absolutely icy. Then he delivers a measured shredding. It's a mighty thing to see."

The real proof of MCC's worth will come when its research starts showing up in its shareholders' new products. For some time, Inman has worried that the member companies will be slow to exploit the consortium's work. He says, "As we began to make prog-

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ress at MCC my focus became, 'How are you going to use this?' The companies were quick to say, 'None of your business.' In the absence of knowing what they planned to do, I didn't get a warm feeling they were getting ready to suck it up fast."

At MCC's September board meeting, Inman surprised members by announcing he had decided to quit. He'd been approached by Mason Best board members months earlier. Westmark Systems will concentrate on military electronics, Inman says, because he is familiar with the products and with government procurement procedures. He adds that the military is more receptive to new technology: "If you're going to get shot at, it focuses your attention."

CYNICS WILL suspect that Mason Best is less interested in Inman's fabled brain than in his contacts inside the D.C. Beltway. Inman bristles at suggestions of influence peddling. He views a growing alliance between U.S. corporations and the Defense Department as the fastest way to develop the technology companies need to compete in world markets. It all sounds vague, but he figures one of the best ways to make Westmark successful is to develop high-tech products for the military—possibly including the "Star Wars" program—and then fashion commercial products from them as quickly as possible.

Few companies have ever accomplished that, and Inman will have to cope with military procurement procedures that sometimes drag out the adoption of new technologies for as long as ten years. He is unfazed. "Some people joke that I see the Defense Department as some form of MITI," he says, referring to Japan's Ministry of International Trade and Industry, which has a mixed record of helping companies develop and export new products. "I'm not so sure I disagree."

Becoming dead serious, Inman warns that if American companies don't get the hang of swiftly turning new technology into products, trade imbalances will persist. That spells trade wars, he says, and for a four-star admiral that spells trouble: "They would weaken or dissolve our alliances, and in a world of fast-moving armies, we don't have an excess of military bases overseas."

Grandiose talk, all right, from one who sometimes seems less a businessman than just another warrior in mufti. Considering the man's accomplishments, however, maybe we better take him seriously. Larry Tisch and some other sharp money men do. **F**

Congress Is Crippling the CIA

By
ROWLAND EVANS AND ROBERT NOVAK

Charged with "overseeing"
U.S. intelligence, too
many lawmakers, with
too many political axes to
grind, are leaking too
many vital secrets.
It's time to plug the holes

AT 5 A.M. ON OCTOBER 11, 1985, a stretch limousine carrying Sen. Patrick Leahy (D., Vt.) pulled up to CIA headquarters in Langley, Va. Vice chairman of the powerful Senate Select Committee on Intelligence, Leahy had asked for a full briefing on the *Achille Lauro* hijacking. But why before dawn?

Because Leahy had agreed to appear on the CBS "Morning News" at 7 a.m. to comment on the interception by U.S. pilots of the hijackers' plane. Following his meeting, Leahy, who now possessed every secret in the case, was driven directly to CBS studios in Washington. "It's a major triumph for the United States," reported Leahy. Then he made an extraordinary disclosure: "When [Egyptian President Hosni] Mubarak went on the news yesterday and said the hijackers had left Egypt, we knew that wasn't so. Our intelligence was very, very good."

Leahy had inadvertently tipped intelligence specialists from Cairo to Moscow that the United States had intercepted Mubarak's phone calls and heard that the *Achille Lauro* hijackers were still in Egypt. The conversations had been "read" by communications intelligence and flashed to computers in Fort Meade, Md., where the National Security Agency daily monitors thousands of intercepted voice signals.

The disclosure would bring Egyptian countermeasures to safeguard subsequent telephone calls. Every government in the world to note, and reacted by tightening security on communications. Leahy insisted to an incensed CIA director William Casey that Administrative officials had publicly disclosed the hijackers' whereabouts the day before he went on TV.

This incident is one of many showing that the current era of Congressional oversight of the CIA is simply not working. Instead, the Senate and House Intelligence Committees have become conduits for classified information. CIA efforts to

thwart international terrorist actions or to lend support to anti-communist guerrillas are difficult enough, but keeping those operations secret has become nearly impossible. And vital intelligence-sharing by U.S. allies has been severely hampered by concerns in foreign capitals over the leakage of information passed to Washington.

Pattern of Leaks. Under the present oversight system, the 31 members of the House and Senate committees, plus more than 60 staff members, are informed of proposed covert operations. "Any one of these people who does not believe in an operation can appoint himself or herself to stop it," says Rep. Michael DeWine (R., Ohio). "All they need to do is call a reporter." Thus, the ability to make or break government policy is widely dispersed.

Congressional leaks concern Rep. Henry Hyde (R., Ill.), a member of the House Permanent Select Committee on Intelligence. He has bluntly scolded colleagues, reminding them that with Congress's "need to know" for oversight purposes "goes the overriding responsibility to keep much of that information secret."

The impact on U.S. relations with allies has been severe. Casey has testified that leaks "do more damage than anything else" to U.S. intelligence and to "our reputation and reliability" among allies. In fact, concern about American leakage has spread across the world, often disrupting U.S. policy. For

operations of the U-2 spy plane.

Until 1974, a small group of senior members of Congress worked with floor leaders of both parties as an informal oversight panel. They were briefed by the CIA director himself, usually without Congressional staff present.

But questionable domestic surveillance activities, assassination plans, and other abuses by the CIA in the 1970s led to the branding of the agency as a "rogue elephant," transforming that collegial atmosphere. A rapid politicization of intelligence marked the new era of CIA oversight. In 1982, for example, the Democratic-controlled House Intelligence Committee released a staff report asserting that the Administration was cooking intelligence to gain support for its policy in Central America. According to the committee's own intelligence consultant, former deputy director of the CIA Adm. Bobby

Inman, the report was "filled with biases," and in fact had been prepared at the specific request of committee members with a partisan axe to grind. Furious that he had not been consulted, Inman resigned.

A clear breach of secrecy occurred in September 1984 with press reports of a CIA briefing of the Senate Intelligence Committee that revealed our knowledge of a top-secret Indian proposal to make a preemptive strike against Pakistan's nuclear facility. Realizing its security had been compromised, the Indian government launched an investigation. The probe broke up a French intelligence ring that

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